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FEDERAL COMMUNICATIONS COMMISSION
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In the Matters of	)	
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1998 Biennial Regulatory Review Review of Accounting and Cost Allocation Requirements	)))	CC Docket No. 98-81
	)	
United States Telephone Association Petition for Rulemaking	))	ASD File No. 98-64

<u>COMMENTS OF LEXCOM TELEPHONE COMPANY</u>

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Summary

Lexcom supports the FCC's* proposed simplification of the Uniform System of Accounts for mid-sized ILECs. However, Lexcom is concerned at the failure of the FCC to bring meaningful regulatory simplification to the smallest ILECs. The net result of simplification of accounting requirements for mid-sized ILECs is that the remaining regulatory accounting burdens will be the same for Sprint – Local Division, Alltel, Frontier, Cincinnati Bell, and Aliant, as these accounting burdens will be for Lexcom and other rural ILECs. Just as it is unfair, for example, to treat Frontier in the same manner as Bell Atlantic, or to treat Aliant as if it were US WEST, so to is unfair to treat Lexcom as if it were Frontier or Aliant. The FCC should have followed regulatory relief for these mid-sized carriers, which are still very large by comparison to rural ILECs, with corresponding accounting simplification for the smallest carriers. The reasons supporting accounting relief for mid-sized ILECs are equally applicable to further accounting relief for rural ILECs. Lexcom proposes the reduction of the number of accounts that would have to be kept by small ILECs from the current 109 to 32.

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* All abbreviations are explained in the body of the pleading.

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COMMENTS OF LEXCOM TELEPHONE COMPANY

Lexcom Telephone Company ("Lexcom") respectfully offers the following comments on the Federal Communications Commission's ("FCC") Notice of Proposed Rulemaking[1] in the above-captioned proceedings. Lexcom is a small incumbent local exchange carrier ("ILEC") serving the city of Lexington and its surrounding area, in Davidson County, North Carolina. Lexcom provides state-of-the-art telephone service to 32,900 business and residence access lines, as well as exchange access services to a variety of interexchange carriers ("IXCs"). In addition, Lexcom's affiliated companies offer long distance services, Internet service, commercial mobile radio services ("CMRS") and cable television service to customers in this area. Lexcom and its affiliates have 128 employees working to meet the needs of their customers.

[1] *1998 Biennial Regulatory Review, Review of Accounting and Cost Allocation Requirements* and *United States Telephone Association Petition for Rulemaking*, CC Docket No. 98-81 and ASD File No. 98-64, FCC 98-109, Notice of Proposed Rulemaking (rel. June 17, 1998) ("*Notice*").

Introduction

This notice of proposed rulemaking was released by the FCC as part of its new responsibilities under Section 11 of the Communications Act of 1934, as amended.[2] This section of law requires the FCC to review its regulations, every two years, to determine whether the regulations are no longer in the public interest due to meaningful competition. Those regulations that no longer serve the public interest are to be repealed or modified, according to the directive of Congress.[3] The FCC, in its current biennial review, has proposed significant changes to its accounting and cost allocation rules. The FCC has proposed to allow every ILEC, except the RBOCs and GTE, to use the same simplified form of regulatory accounting (Class B accounts) now used by small ILECs, including Lexcom. In addition, the FCC has proposed simplification of the cost allocation manuals ("CAM") used by mid-sized ILECs that would be eligible to move to use of the Class B accounts under this proposal. Finally, the FCC proposes several, more minor changes to the Uniform System of Accounts ("USOA")[4] "to reduce accounting requirements and to eliminate or consolidate accounts."[5] The latter changes would apply to Lexcom and other rural ILECs to some degree.

Lexcom commends the FCC for its serious effort to make Section 11 of the Telecommunications Act of 1996 work as intended by Congress. The accounting changes proposed by the FCC are not merely cosmetic in nature, but rather, a significant reduction in

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[2] 47 U.S.C. §161.

[3] *Id.*

[4] 47 C.F.R., Part 32

[5] *Notice* at ¶2.

regulatory burdens on many mid-sized carriers. By concentrating its regulatory oversight on the RBOCs and GTE, the FCC will continue to receive Class A accounting data on nearly 90% of the local exchange industry, as recognized by the FCC.[6] At the same time the FCC will allow many ILECs to shift their resources from regulatory overhead to the provision of quality services to customers in an increasingly competitive market. Lexcom supports this proposed change in regulation for mid-sized ILECs.

The Commission's Other Proposed Accounting Changes

The FCC has proposed to consolidate Accounts 2114, 2115, and 2116. This change was suggested by the United States Telephone Association ("USTA") and would combine Account 2114, Special purpose vehicles, Account 2115, Garage work equipment, and Account 2116, Other work equipment, into a single account. The FCC notes that the assets in these accounts are similar in nature and have similar depreciation rates.[7] The FCC would require all subject ILECs to consolidate these three accounts into a single Account 2114, Tools and Other Work Equipment. The FCC recognizes that this action would reduce accounting burdens for ILECs and would not affect the jurisdictional separations process.[8]

To match the consolidation of asset accounts, the FCC proposed a corresponding consolidation of the associated expense accounts. These are: Account 6114, Special purpose vehicles expense, Account 6115, Garage work equipment expense, and Account 6116, Other

[6] *Id.* at ¶5.

[7] *Id.* at ¶14. *See also,* 47 C.F.R. §§32.2114 – 32.2116.

[8] *Notice, id.* at ¶14.

work equipment expense. Transactions affecting these three accounts would be recorded in a new Account 2114, Tools and other work equipment expense. The FCC again notes the cost savings potential for this change and its lack of impact on jurisdictional separations.[9]

The FCC also has proposed to simplify accounting for non-regulated revenues for all ILECs. Instead of being required to record non-regulated revenues in operating revenue accounts, the FCC would allow ILECs to record deregulated revenues in a single Account 5280, Non-regulated operating revenues. Not only would this change simplify accounting operations for ILECs, but it also would eliminate the ability of competitors to identify an ILEC's product-specific non-regulated revenues. Also, the FCC would eliminate Account 5010, Public telephone revenue, since the FCC has deregulated payphones.[10]

In another accounting simplification move, the FCC proposes to simplify the filing requirements mandated when an ILEC moves to conform its records and accounts to the accounting standards prescribed by the Financial Accounting Standards Board ("FASB"). Currently, an ILEC must provide an analysis of the proposed accounting change for the current year and a three-year, forward looking projection for the impact of the FASB conformance changes. The FCC would still require ILECs to file the current year's projections, but would eliminate the three-year, forward-looking projection requirement.[11]

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[9] *Id. Id.* at ¶15.

[10] *See Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, Report and Order, 11 FCC Rcd 20541 (1996), Order on Reconsideration, 11 FCC Rcd 21233, *aff'd in part and remanded in part, sub nom., Illinois Public Telecommunications Ass'n v. FCC*, 117 F.3d 555 (D.C. Cir. 1997).

[11] *Notice* at ¶17.

The FCC also proposes to eliminate the current requirement that all ILECs obtain FCC approval for journal entries related to the acquisition of telecommunications plant from other entities at a cost in excess of $1 million for Class A accounting carriers and $250,000 for Class B accounting carriers.[12] Finally, the FCC requests proposals for other changes to accounting or filing requirements.[13]

Lexcom supports the FCC's proposed, specific changes to the USOA, which would be generally applicable to all ILECs. The new Tools and Other Work Equipment investment and expenses account are appropriate records. There is no need for additional accounting detail that is not necessary to develop rates for telephone service. Similarly, the changes to accounting for non-regulated revenues, changes to accounts to conform to new FASB principles and the elimination of journal entries for the acquisition of telecommunications plant in excess of $250,000 for smaller ILECs are appropriate and should be adopted by the FCC.

[12] *Id.* at ¶18.

[13] *Id.* at ¶19.

The Rationale Supporting Accounting Relief for Mid-Sized ILECs Necessitates Even More Accounting Relief for Rural ILECs

As stated above, Lexcom commends the FCC for reducing the complexity of the USOA for mid-sized ILECs. Those changes and the other account simplifications are welcome changes. At the same time, however, Lexcom is concerned at the failure of the FCC to bring meaningful regulatory simplification to the smallest ILECs. While we support simplification of the accounting process for the mid-sized carriers, the net result of such simplification is that the remaining regulatory accounting burdens will be the same for Sprint –Local Division, Alltel, Frontier, Cincinnati Bell, and Aliant, as these accounting burdens will be for Lexcom and the other many rural ILECs. Just as it is unfair, for example, to treat Frontier in the same manner as Bell Atlantic, or to treat Aliant as if it were US WEST, so to is unfair to treat Lexcom as if it were Frontier or Aliant. The FCC should have followed regulatory relief for these mid-sized carriers, which are still very large by comparison to rural ILECs, with corresponding accounting simplification for the smallest carriers.

Each of the reasons given by the FCC to support accounting relief for mid-sized ILECs is equally applicable to the small, rural carriers. The FCC notes[14] that its proposed accounting changes for mid-sized ILECs will still provide the FCC with Class A accounting data for nearly 90% of the local exchange industry, as measured by operating revenues. If the FCC were to simplify accounting further for smaller ILECs, the FCC would still have access to Class A and B

[14] *Id.* at ¶4.

accounting data for 99.09% of the local exchange industry, as measured by operating data.[15] There can be no reasonable need for the same type of data for the smaller ILECs that account for only 0.91% of the remaining operating revenues. Therefore, Lexcom urges the FCC to establish a new Class C system of accounts that is less burdensome for rural ILECs.

Similarly, just as mid-sized carriers "typically conduct a lower volume of transactions involving competitive products and services than the large incumbent LECs," and, therefore, are easier to monitor, so too do rural ILECs "typically conduct a lower volume of transactions involving competitive products and services than the" mid-sized ILECs. The logic underlying the *Notice* compels further accounting relief for even smaller ILECs.

The FCC is concerned that its pole attachment rules[16] contemplate Class A accounting requirements to calculate just and reasonable rates for pole attachments and that the use of Class B accounts will not provide the necessary detail. Lexcom submits that the FCC is allowing the tail to wag the dog. Congress greatly expanded the authority of the FCC to regulate pole attachments to many entities that are not ILECs and which do not use the USOA. The new Section 224 of the Telecommunications Act of 1996[17] regulates not just local exchange carriers, but also "electric, gas, water, steam, or other public utilities"[18] that own or control poles, conduits, ducts or other rights-of-way. While these utilities may well keep regulated books of

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[15] Calculated from Common Carrier Bureau, *1997 Preliminary Statistics of Common Carriers*, (May 1998) at Table 1.2.

[16] 47 C.F.R. §§1.1401 – 1.1416; *Notice* at ¶7.

[17] 47 U.S.C. §224.

[18] *Id.* at §224(a)(1).

account, such accounting certainly does not conform to the FCC's Part 32 rules. If the FCC can regulate pole attachment rates of these utilities without Part 32 complexities, the FCC can certainly regulate pole attachment rates of small local exchange carriers without Part 32 complexities.

Creation of a "Class C" System of Accounts Is Warranted

Lexcom submits that the record warrants the creation of an even more simplified USOA for those ILECs that have been using Class B accounting. A new Class C system of accounts should be developed at a greatly simplified level. A comparison of the proposed Class C accounts to the current Class B accounts follow.

Table 1 - New Class C Accounts

Number of Accounts	New Class C Account	Old Class B Account(s)
1	Current assets	1120, 1180, 1181, 1190, 1191, 1200, 1201, and 1210
2	Non-current assets (investments and deferred charges)	1401, 1402, 1406, 1407, 1408, 1410, 1437, 1438, 1439 and 1500
3	Telecommunications plant in service (balance sheet summary account only)	2001
4	Plant held for future use or under construction	2002, 2003, 2004, 2005, 2006 and 2007
5	General support assets	2110
6	Central office switching	2210, 2220
7	Central office transmission	2230, 2310
8	Cable and wire facilities	2410
9	Amortizable assets & intangibles	2860, 2890
10	Accumulated depreciation and amortization	3100, 3200, 3300, 3400, 3500 and 3600

11	Current and other liabilities	4010, 4020, 4030, 4040, 4050, 4060, 4070, 4080, 4100, 4110, 4120, 4130, 4310, 4320, 4330, 4340, 4341, 4350, 4360, 4361, and 4370
12	Long-term debt	4210, 4220, 4230, 4240, 4250, 4260, an 4270
13	Stockholder's Equity	4510, 4520, 4530, 4540, and 4550
14	Local service and intraLATA revenues	5000, 5100
15	Interstate network access revenues	5080, 5081, 5082, and 5083
16	State network access revenues	5084
17	Miscellaneous revenues	5200
18	Non-regulated revenues	5280
19	Uncollectible revenues	5300
20	General support assets expenses	6110, 6120
21	Central office switching expenses	6210, 6220
22	Central office transmission expenses	6230, 6310
23	Cable and wire facilities expense	6410
24	Plant non-specific operations expense	6510, 6530, and 6540
25	Depreciation and amortization expense	6560
26	Customer operations expense	6610, 6620
27	Corporate operations expense	6701, 6720, and 6790
28	Other income and expense	7100, 7300,
29	Taxes (operating and non-operating)	7200, 7400
30	Interest	7500
31	All other, including extraordinary items	7500, 7910
32	Non-regulated net income	7990

Through a careful analysis, Lexcom recommends herein a reduction in the number of accounts that would have to be kept by small ILECs from the current 109 to 32. The Lexcom proposal keeps accounts at a very summary level in order to minimize administrative costs while still maintaining a rate-of-return basis for ratemaking. While more accounting detail is always more interesting, such detail does not help deliver services more effectively to customers in rural areas. It is clear that reasonable rates can be calculated on the basis of financial data that are aggregated at a higher level. For example, rates for average schedule ILECs are based on cost studies taken on a sampled-company basis and do not relate to the specific costs of individual pool member ILECs, as recorded in their Part 32 accounts. No one has claimed that the NECA pool rates are unreasonable because of the lack of a direct tie from the NECA pool rates to a particular pool member's books of account.[19] Additional accounting relief should be provided to small ILECs.

Moreover, even such a significant reduction in accounting complexity for small ILECs would not eliminate all accounting records. If the FCC or a state commission has cause to investigate the rates charged by a rural ILEC, it still would have access to the Part 32 journal entries of the small ILEC. In addition, all small ILECs maintain accounting records that comply with generally accepted accounting principles as established by the Financial Accounting Standards Board.

If regulators can resolve complaints involving rates for IXCs or operator service providers ("OSPs") that do not keep Part 32 books of account, regulators can investigate the rates or resolve rate complaints for small ILECs using even more simplified Part 32 books of account. As the Commission is well aware, it is the rate cramming, slamming, aggregator commissions, and other practices of IXCs and OSPs that generate the majority of complaints. The smallest ILECs have revenues that are a mere 1.2% of the revenues of

[19] The primary purpose of the NECA pool, to reduce the administrative and regulatory burdens for small ILECs, would be undermined if each pool member was required to calculate different rates on the basis of individual company books of account.

the IXCs, and OSPs[20] and would still be subject to the simplified Part 32 accounting regulations recommended herein. No one has suggested that the lack of Part 32 accounting requirements for IXCs and OSPs *per se* creates a risk of harm to American consumers. Lexcom submits that, given the collective small size of rural ILECs, it is axiomatic that there can be no risk of harm to American consumers by further relaxing regulated accounting requirements for rural ILECs.

[20] Calculated from Common Carrier Bureau, *Telecommunications Industry Revenue: TRS Fund Worksheet Data* (Nov. 1997), Tables 5, 18B and 19.

Conclusion

For the reasons set forth above, the FCC should adopt the accounting changes proposed in the *Notice*. In addition, the FCC should create an even more simplified "Class C" version of Part 32 that should be applicable to the smallest ILECs, as proposed herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Stella H. Hughes, hereby certify that on July 15, 1998, a copy of the foregoing Comments of Lexcom Telephone Company, and Certificate of Service has been served on the following parties, by hand delivery.

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